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TREASURY FOR OIA

E.O. 12958: N/A

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SUBJECT: PM GURGENIDZE URGES SENATOR BIDEN TO SUPPORT  
ECONOMIC HELP FOR GEORGIA

REF: TBILISI 1367

11. (SBU) Summary: In an August 17 meeting with U.S. Senator Joseph Biden, Georgian Prime Minister Lado Gurgenedze outlined the economic cost of the Russian invasion of his country. He stressed the importance of continued existence of the reform-minded government of Georgia to continuing U.S. influence in Azerbaijan and Central Asia. Georgia is experiencing a serious decline in the flow of investment to offset its significant current account deficit. Without international assistance, Georgia will have a serious economic crisis and social and political unrest that will threaten the GOG. Georgia needs an emergency IMF program funded at up to 300 percent of its quota. Additionally, Gurgenedze asked Biden and the USG to create an internationally supervised, locally-managed fund for reconstruction of the billion dollars in damage caused by Russian troops. In the PM's view, U.S. leadership in creating a fund, ideally with USD 1 billion in capital, is essential to securing other needed donations by European nations and the international financial institutions. End Summary.

GEORGIA'S FAILURE A THREAT TO U.S. INTERESTS IN THE REGION  
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12. (SBU) Biden told Gurgenedze that if the Russian invasion of Georgia is allowed to stand, it will mean that the last 18 years of progress toward a secure, democratic Europe has been wasted. Biden said he has heard from many world leaders who are concerned and who agree with him that Russia must pay a price for its actions. Gurgenedze agreed, and noted that Russia's acts threaten the process of change in Azerbaijan and the Central Asian countries. If the Georgian government falls, he said, Azerbaijan will re-enter the Russian orbit and there will be no chance of competing for influence in Turkmenistan. Already, Gurgenedze said, Kazakhstan has gone cold to Georgia and politicians in Ukraine, including Tymoshenko, are beginning to distance themselves with calls for neutrality. The Russians should leave Georgia as soon as possible. Biden said that a strong and solid response from the Europeans is needed, and simply likening the Russian occupation to Munich is not enough.

GEORGIA'S SUCCESS BEFORE THE INVASION...  
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13. (SBU) Gurgenedze told Biden that before the Russian attack, Georgia was expecting a 2008 GDP of USD 13.5 billion, up from USD 10 billion in 2007. At the same time, because of growth that stimulates imports of both capital equipment and domestic consumption, Georgia's current account deficit was 20 percent of GDP. Such a large gap was sustainable, Gurgenedze said, so long as it was offset by inflows of

foreign investment. Georgia has been receiving not only direct investment but also an unusually large amount of portfolio investment by private equity firms, amounting to 22 percent of GDP altogether. This was because Georgia is "a shining light" and a "textbook case" of liberal economic reform that makes it a darling of the investment community. Gurgenedze has been predicting that Georgia would have caught up with the poorest EU country, Bulgaria, within a mere three years. Russia's attack has destroyed investor confidence and the outlook is for no such income at all during the rest of 2008. Russia's intentions are to destabilize the Georgian government economically and replace it with a weak, unstable and subservient regime such as exists in Moldova, he said.

AND URGENT NEEDS AFTER IT  
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14. (SBU) Gurgenedze, a former banker, told Biden that Georgian banks have held up well after the Russian attack. They lost 12 percent of deposits in the first few days. However, he said, the National Bank of Georgia (NBG) expended 11 percent of its reserves to preserve liquidity and keep the exchange rate stable. Gurgenedze predicts that even if there are no more shocks, foreign currency reserves will erode another 3-4 percent over the next week, and will be sufficient to cover only half of the usual three months of imports. Such losses simply cannot be sustained, he said.

15. (SBU) Gurgenedze said the GOG would like for the IMF to offer it a program funded at 300 percent of Georgia's quota in order to keep the banking system stable. An emergency mission is coming to Georgia soon from the IMF to assess the situation. Gurgenedze hopes that the facility will never have to be used. But without confidence building measures,

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he estimates that only USD 500 million in investment will come to Georgia in 2009. If that happens, and no other help is received, Russia's objective of regime change will likely be accomplished by the ensuing social and political discontent.

16. (SBU) Besides the IMF program, Gurgenedze is thinking of direct contributions to a reconstruction fund composed of U.S., European and international financial institution money, which would be internationally supervised and locally managed in Georgia. He hopes that the U.S. will contribute as much as USD 1 billion, and that other donors could be persuaded to match that amount. He says an "attention getting number", one billion dollars, is needed, and that sum matches the extent of the damage to private and public infrastructure. The highway system has suffered as much as USD 300 million in damage. A concerted effort to privatize and develop hydropower assets, which could have produced USD 1.5 billion a year in exports of power, is stymied. Plans to privatize the 49 percent of Poti port still in government hands are useless. Government revenues will decline by 30 percent, according to Gurgenedze, and the exchange rate could slip from 1.4 lari to the dollar to 1.7. The government's borrowing power for private capital will be far less than before.

17. (SBU) U.S. leadership in setting up the fund and persuading European governments to help is essential, Gurgenedze said. Senator Biden concluded by noting that people in the United States are concerned about the new, ugly face that Russia has presented to the world through its invasion of Georgia.

18. (U) Senator Biden's office has cleared this message.  
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